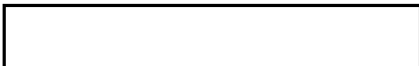


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6 June 1952

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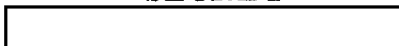
CENTRAL INTELLIGENCE AGENCY

DIA AND DOS REVIEW COMPLETED

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GENERAL

1. Soviet feeler regarding terms for Korean armistice: In a conversation with an Israeli delegate at the United Nations, Assistant Secretary General Zinchenko, a Russian national, took the initiative in suggesting a new formula for the Korean armistice negotiations. Zinchenko asked for an opinion on the possibility of initialing an armistice agreement on the basis of issues already settled, with the understanding that the agreement would become effective upon settlement of the POW issue.

Zinchenko opened the discussion with a reference to a conversation of a year ago between Malik and the Israeli delegate in which the latter expressed the view that settlement of the German question would be difficult as long as the Korean war continued.

The Israeli delegate commented that Zinchenko was probably "not freewheeling" and suggested that the Russians were sounding out sentiment on bringing up pending issues such as Korea during the USSR's presidency of the Security Council in June. [REDACTED]

Comment: The USSR's first initiative on a Korean settlement occurred in the Malik conversation with the Israeli delegate in March, 1951. Such approaches appear intended both to convey information and gain an impression as to how firmly UN members support the US stand in Korea.

EASTERN EUROPE

2. Hungarian note protesting overflight by American plane is unusually courteous: The US Legation in Budapest on 4 June received a note from the Hungarian Foreign Office protesting

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an overflight of Hungarian territory on 20 May by an American C-46 two-engined passenger aircraft en route to Yugoslavia. The note requested an investigation but was correct and courteous in tone, which according to the US Legation is most unusual in instances of this kind. [REDACTED]

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3. Shakeup of Hungarian national sports leadership reported: A shakeup in the Hungarian National Physical Culture and Sports Committee is interpreted by the US Legation in Budapest as probably due to dissatisfaction with the paramilitary training given by the "Ready to Work and Fight" movement. The committee's vice president Jenő Tapolcsai and one member were relieved by the Cabinet Council on 1 June. [REDACTED]

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25X1 [REDACTED] Comment: It is possible that the present shakeup results from recommendations made by the Soviet Komsomol delegation which left Hungary at the end of April. In that case, the changes may be a step toward Sovietization in the Hungarian paramilitary structure.

The National Sports Committee, with a network of subordinate local committees, is charged with directing training to prepare for better work and defense. The committee functions directly under the Cabinet Council. Membership in the "Ready to Work and Fight" movement is compulsory for white-collar workers, teachers, servants and industrial workers. Reportedly, these groups have shown little interest.

4. Ambassador Kennan comments on Rumanian situation: The American Ambassador in Moscow suggests that the recent changes in Rumania may be part of a new phase in Soviet foreign policy. He speculates that as a result of the present German crisis, the USSR may exploit puppet Satellite forces more boldly to heighten international tension and that, as part of this move, the Russians are taking further steps toward including Rumania in the USSR.

25X1 The Ambassador does not feel that integration is imminent, but he suggests the possibility that the present purges and reform of the judicial system may be partly intended to lead the way. [REDACTED]

Comment: Although the timing of the Rumanian purges appears to connect them with the East-West struggle in Europe rather than with purely internal causes, a power struggle within the party hierarchy is the major factor.

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FAR EAST

5. Pusan demonstrations postponed: Charge Lightner reports that a South Korean Government publicity release of 4 June was his first indication that the mass demonstrations scheduled for 7 June in Pusan had been postponed. On 3 June President Rhee threatened his Cabinet with the demonstration and march on Pusan and advised Lightner of the same thing.

The Charge comments that while the immediate reason for the delay may be hope that the Assembly is sufficiently intimidated to submit, Rhee may also be aware of the incongruity of disorders in a city under martial law and the possibility that the UN might be forced to take action to safeguard the port.

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[REDACTED]

6. Chinese to complete West China railroad before July: A news broadcast from Chungking on 18 May stated that "to insure the opening of traffic on the Chungking-Chengtu railway on 1 July," Factory #101 would increase its output of steel rails.
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- [REDACTED]

Comment: Two days earlier Chungking Radio reported that 462 kilometers of this 530-kilometer line had been laid.

Factory #101 in Chungking is believed to be the only one in China capable of rolling standard weight steel rails. The Communists have asserted that it was the sole supplier of rails for this new line. Its capacity is probably about 40,000 tons of rails a year, or enough for 400 kilometers of track.

[REDACTED]

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The 27th Army, according to latest reports, is still in Korea.

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8. Appointment of new Vietnamese premier stuns Tonkinese: An official of the Tonkin government told the American Consul in Hanoi that news of the appointment of Nguyen Van Tam to the premiership has been received with "stunned incredulity," and predicted that Tam will last only a few months, since he is entirely without Vietnamese backing. The same official interprets Tam's appointment as a final desperate bid for power by the French, who, he said, induced Bao Dai to name Tam by assuring Bao Dai a large personal income. [REDACTED]
- [REDACTED]
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Comment: Tam was active as Minister of Security and later as Acting Governor of Tonkin for a period of five months prior to March 1952. His repressive police methods and his liquidation of the popular nationalistic Dai Viet Party, the principal rival of the pro-French ruling faction which Tam represents, earned him the enmity of the Tonkinese. The incumbent governor of Tonkin is reported to have tendered his resignation on learning of the Tam appointment, but was ordered by Bao Dai to remain on duty.

[REDACTED]

SOUTH ASIA

10. Indian and Pakistani delegates to Moscow Economic Conference were not impressed: The leader of the Indian delegation to the International Economic Conference in Moscow reports that the USSR is anxious to trade with India but does not have much to offer. He states that many Indian attempts to arrange business deals fell through.

A director of the State Bank of Pakistan, also a delegate to Moscow, reports that the standard of living of the average Russian is not higher than that prevailing in Pakistan. The

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25X1 editor of Dawn, influential and semi-official Pakistani newspaper, states that Russian houses were dirty and shabby and that Moslems in Moscow were the dirtiest and most poverty-stricken people he saw.

Comment: These comments, generally unfavorable to the USSR, are of particular interest because the men voicing them are among the most prominent members of their respective delegations. Furthermore, as these men generally move in official or semi-official circles, their reports ought to do much to counteract the almost exclusively pro-Communist propaganda emanating from the members of predominantly leftist cultural groups previously visiting the USSR.

25X1 NEAR EAST - AFRICA

12. Nationalists assert Morocco may not consider World Court decision binding: The Moroccan Nationalist Front in a "memorial" to the International Court of Justice dated 10 May claimed that Morocco is not rightfully represented by France in the Moroccan case between France and the United States.

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The Nationalists maintain that since the voluntary consent of the Moroccan Government has not been given, Morocco will not consider itself bound by a decision detrimental to its legitimate interests.

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Comment: The French and American Governments agreed last fall that France was appearing before the Court as protector of Morocco as well as in its own name, and that Morocco would be bound by the Court's decision.



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WESTERN EUROPE

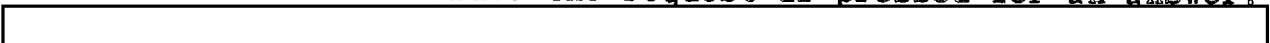


14. Belgium and Netherlands may approve, France to deny Czech requests for flight rights: Both the Belgian Ministry of Communications and SABENA, the Belgian airlines, believe that Belgium should approve the commercial flight rights requested by Czechoslovakia to prevent possible Czech retaliation against SABENA. The Belgian Foreign Office, which regards the question of further delay as largely political, sees no basis for delaying a reply to or refusing the Czech request.

According to a Belgian Foreign Office official, the Dutch Government is being pressured by KLM, the Dutch airlines, and Dutch transportation authorities to give early approval to the Czech request to avoid retaliation against KLM.

Meanwhile, a French Foreign Office official has told the US Embassy that France has not made a written or oral reply to the Czech note and will refuse the request if pressed for an answer.

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Comment: Czechoslovakia made its initial inquiries for flight rights on its circuitous Prague-Paris route in late 1951. Early last month, Czechoslovakia withdrew blanket permission for Friday flights of KLM out of Prague and it is understood that the same procedure has been applied to SABENA.

25X1 The United States and Britain have strongly suggested that the Czech requests be denied, because approval would circumvent existing controls on Czech overflights in Western Europe. Although Belgium and the Netherlands have pursued delaying tactics, they have indicated eventual approval of the Czech request because of international agreement. Denmark has already acceded to the Czech request.

16. Swiss accounting firm refuses to audit Austrian Bank's Swiss subsidiary: Allgemeine Treuhand Gesellschaft, Swiss accounting auditors, have refused to audit the books of Limor, the Swiss subsidiary of the Austrian Creditanstalt.

SECRET

6 June 52

SECRET

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The chief of the MSA Mission in Paris believes that no other reputable Swiss firm will accept this assignment. He suggests that the United States ask Austria for assurances that only a reputable firm will be employed for the audit. [REDACTED]

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Comment: It is probable that reputable Swiss accounting firms do not want to audit Limor for the Americans and Austrians because Swiss espionage laws prohibit the disclosure of information regarding Swiss firms to foreigners.

The disclosure of serious irregularities in the Creditanstalt's handling of American aid funds has caused a serious political situation in Austria. Limor has apparently been used extensively by the bank for such transactions. The Creditanstalt may have agreed to an audit of Limor's books, hoping that Swiss laws would prevent such an audit.

17. Franco government sees Spain as primary Soviet target in Europe: In a 24 April talk with the American Ambassador, Under Secretary of the Presidency Carrero Blanco, then Acting Foreign Minister, stated that Spain would be the USSR's primary target in Europe. He said that in the event of war it would be essential for the West to preserve a beachhead in Europe, and that since the Iberian Peninsula would be the only logical and satisfactory beachhead, it must be held at all costs.

The Spanish official said that Spain would not be willing to risk its troops beyond the Pyrenees unless it were evident that there was effective resistance there. He added, however, that it might be willing to send a token force of perhaps two divisions at the beginning. [REDACTED]

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Comment: Carrero Blanco is one of Franco's confidants and his remarks to Ambassador MacVeagh undoubtedly were both approved and inspired by the Caudillo. While his statements probably reflect to some degree Spanish strategic military estimates, they seem to have been designed primarily to strengthen Spain's bargaining position in the current military and economic negotiations with the United States.

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6 June 1952

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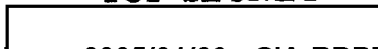
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FAR EAST

1. Rhee reported continuing arrests: Leading figures opposed to President Rhee are reportedly still being arrested or sought by the police, according to a 4 June report from American Charge Lightner. Particular attention is being given to ranking members of the Democratic National Party.

Lightner comments that as a consequence of this action the opposition DNP has been effectively driven underground in Pusan.

Comment: The President is proving slippery in his commitments regarding arrests of the opposition. Rhee advised the British Charge on 4 June that there would be no more arrests of Assemblymen.

An official South Korean Government publicity release of 4 June said that the Home Minister and Provost Marshal have been ordered to arrest no more Assemblymen "on bribery or other such charges at present, unless they are directly involved in the two major investigation cases."

2. London satisfied with Templer's progress in Malaya: Colonial Office officials in London have informally told an American Embassy officer they believe General Templer, British High Commissioner in Malaya since February, is making progress in the political and military campaign against the Malayan Communists. The resettlement program appears to be showing results since the protection and economic help it

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provides are slowly encouraging popular confidence in the authorities.

The officials feel Templer's only serious mistake so far has been his harsh punishment of the village of Tanjong Malim for assisting the guerrillas, which earned only hostility and elicited little information. Also, his apparent failure to win the confidence of the trade unions may produce difficulties in the forthcoming negotiations for rubber workers' wage cuts.

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WESTERN EUROPE

4. Italy prepares to resume direct discussions with Yugoslavia over Trieste: Italy will propose that direct discussions with Yugoslavia on Trieste be held in London, according to the Secretary of the Italian Foreign Ministry. Appropriate instructions are being sent to the Italian Ambassadors in Washington, London, and Paris.

The Italian official pointed out that Italy has not yet replied to the most recent Yugoslav proposal.

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6 June 52

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